Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

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1:30pm Room 113

University of California (6440)

II. Governor's Compact

(A) <u>Background</u>. Governor's *Compact* with Higher Education. In the spring of 2004, the Governor developed a *Compact* with the University of California (UC) and California State University (CSU) which calls for the Governor to provide the UC and CSU with a specified level of General Fund support as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. This *Compact* mirrors past funding agreements between former Governors Wilson and Davis and the university systems. The Governor's 2007-08 proposed budget provided funding for the third year of this agreement.

<u>Staff notes</u> that this *Compact*, like the *Compacts* that came before it, is an agreement between Governor Schwarzenegger and the UC and CSU systems. The Legislature is not part of this funding agreement nor was it consulted when the agreement was being developed. The Office of the Legislative Analyst (LAO) continues to express concerns that simply "rubberstamping" the *Compact* would further promote an unnerving trend of putting the state budget on "autopilot". Further, the LAO believes that various provisions of the *Compact* are arbitrary, seemingly without connection to either the *Master Plan for Higher Education* or statutory indices used in other programs.

As such, <u>both staff and the LAO recommend</u> that the subcommittee examine the provisions of the Governor's budget proposal with the same level of scrutiny applied to all aspects of the budget, regardless of whether or not the proposals constitute a *Compact* between various parties.

<u>Specifically, the *Compact* contains the following provisions</u>:

1. *Affected Parties.* *Compact* is between Governor Schwarzenegger and the UC and CSU; the Legislature's concurrence is not part of the agreement.

2. *Time Period.* *Compact* is applicable to fiscal years 2005-06 through 2010-11.

3. *General Support*. Beginning in fiscal year 2005-06 and 2006-07, Governor provided three percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from 2007-08 to 2010-11), the Governor will provide increases of four percent annually.

4. *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the *Compact*. This equates to approximately 5,000 full-time equivalent students (FTES) at UC and 8,490 FTES at CSU.

5. *Long-Term Funding Needs*. Beginning in 2007-08, through the end of the *Compact* (2010-11), UC and CSU will receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.

6. *<u>Student Fees</u>*.

    a) <u>Undergraduate Fees</u>. In an effort to better stabilize fees after the sharp increases of the early 2000's, UC and CSU retain the authority to increase student fees – but agreed to limit undergraduate fee increases to eight percent in 2005-06 and 2006-07. Thereafter, UC and CSU will increase fees at the rate of change in per capita personal income, with a maximum increase of ten percent.

b) Teacher Credentialing Fees. Fees will increase by no more than ten percent annually.

c) Academic Graduate Student Fees. Academic graduate student fees were supposed to increase by ten percent for both 2005-06 and 2006-07; thereafter, the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors including the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.

d) UC Professional School Fees. UC will develop a plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs. For the 2007-08 academic year, fees will be increased approximately seven percent. All UC law students and business students at the Berkeley and Los Angeles campuses are proposed to see increases of between 11 and 12 percent.

e) Student Fee Revenues. UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase with corresponding General Fund reductions as the state has done in recent "bad" budget years).

7. *Accountability Measures*. In exchange for the Governor's funding commitment, the UC and CSU agree to the following:

a) Student Eligibility. Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.

b) Community College Transfer Students. Both UC and CSU will continue to accept all qualified community college transfer students.

c) Community College Course Transfer. Both UC and CSU will increase the number of course articulation agreements as they relate to academic "majors" with community colleges. In 2005, UC agreee to achieve major preparation agreements between all ten UC campuses and all 108 community colleges, while CSU agreed to establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.

d) Summer Term/Off-Campus Enrollment Levels. By 2010-11, both UC and CSU will expand summer session and off-campus offerings and student enrollments by reaching FTES levels equivalent to 40 percent of regular-term enrollments.

e) Academic Outreach Efforts. UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions, and agreed to provide at least $12 million and $45 million respectively to continue the most effective academic outreach programs.

f) A through G Course Offerings. Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.

g) Public Service. UC and CSU agree to strengthen student community service programs.

h) Time to Degree. Both UC and CSU will maintain and improve, where possible, students' persistence rates, graduate rates, and time-to-degree.

i) Teacher Candidates. Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

(B). Overview of Governor's Budget.

Governor's 2007-08 UC Budget Proposal				
(Dollars in Millions)				
			Change	
	2006-07 Budgeted	2007-08 Proposed	Amount	Percent Change
UC				
General Fund	$3,078.0	$3,270.1	$192.1	6.2%
Fee revenue	1,998.0	2,151.0	153.0	7.7
Subtotals	*($5,076.0)*	*($5,421.1)*	*($345.1)*	*(6.8%)*
All other funds	$13,252.8	$13,738.2	$485.4	3.7%
Totals	**$18,328.8**	**$19,159.3**	**$830.5**	**4.5%**

III. General Support Increases. Pursuant to the *Compact*, the Governor's proposal provides a four percent or $116.7 million base budget increase for UC. Through the current year, the *Compact* only called for a three percent base budget increase; the additional one percent "bump" becomes effective under the terms of the *Compact* beginning in 2007-08.

Under the assumption that this base budget increase should be designed as a cost-of-living-adjustment (COLA), the LAO is recommending that the Legislature instead fund a base budget increase of 2.4 percent or $70 million, which reflects the estimated rate of inflation. According to the LAO, $70 million should be sufficient for UC to cover the increased operations costs for the coming year.

Staff notes that the $46.7 million which makes up the difference between the Governor's Budget proposal and the LAO's recommendation is targeted by the UC for employee compensation. These funds are traditionally pooled for faculty and staff COLA, merit, benefit, and equity increases and then distributed pursuant to collective bargaining or other compensation agreements.

Staff recommends that this issue be held open pending the Governor's May Revision and a better assessment of the condition of the state General Fund.

IV. Student Fees.

A. 2007-08 Proposal. Consistent with his *Compact*, the Governor increases fees at both the UC and CSU. For UC, fees are proposed to increase by seven percent for the majority of students, with ten percent fee increases proposed for professional degree students in business and law. Recent actions by the UC Regents approved these fee increases, but allow them to be rescinded should the Legislature and the Governor elect to "buy out" the increases with an augmentation of General Fund monies. This fee increase will produce revenues of approximately $105 million dollars; of this amount, UC intends to return approximately 33% or $35 million to financial aid for its students. The net result is approximately $70 million in new revenue to the UC system.

Background on 2007-08 Fee Increases. Instead of initially proposing fee increases in their November 2006 budget documentation (as is the tradition), the Regents proposed a system budget that contained a set of revenue and resource assumptions. They stated that those revenues – equating to roughly $70 million – could come from either the State General Fund (in the form of a student fee "buy out") or from a Student Fee Increase. This was a change from past practice in that it placed the burden of imposing a fee increase on the Governor in that the determination would ultimately be made by whether or not he provided $70 million in additional General Fund in his January budget proposal.

B. General Student Fee Background. In 2004-05, the Governor proposed his own long-term student fee policy. Rather than codifying his proposal or otherwise obtaining Legislative approval, the Governor instead chose to integrate these student fee "principles" into his *Compact* with UC and CSU.

In 2006-07, *contrary to his Compact*, which called for UC and CSU to increase student fees by eight percent for undergraduates and ten percent for graduate students, the Governor and the Legislature "bought out" those fee increases by providing $54.4 million to CSU and $75 million to UC in lieu of the revenue they *would* have received from a fee increase.

In the future, the Governor's *Compact* calls for undergraduate fees to increase at the same rate as per capita personal income, starting with the 2007-08 fiscal year, and not exceed ten percent in any given year. Also beginning in 2007-08, graduate student fees are proposed to increase to a level equivalent to 150 percent of undergraduate fees.

According to CPEC, fees at the UC still remain below those of their comparison institutions (including the Universities of Michigan, Illinois, New York and Virginia). Comparison school fees averaged $8,354 in **2006-07**, which is $1,007 higher than the fee levels proposed for UC resident undergraduate students in **2007-08**.

The chart on the following page offers a recent history of fee levels at the UC:

University of California Student Fees

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03 *(fees increased mid-year)*	4,017	16,396	5,017	16,393
2003-04	5,530	19,740	6,843	19,332
2004-05	6,312	23,268	7,928	22,867
2005-06	6,802	24,622	8,708	23,669
2006-07	6,852	25,486	8,938	23,889
2007-08	*7,347*	*27,027*	*9,481*	*24,466*

The LAO raises a variety of issues related to how student fee levels are established. The LAO and the UC approach budgeting from two different perspectives. In an overly simplified explanation, UC first determines the total resources it will need to operate in any given fiscal year, and then delineates the portion of the revenue which will be derived from the *Compact* versus the portion to come from student fees (or conversely the "buying out" of student fees). The end result is that UC has driven the Legislature to formulate a statewide expenditure plan that, assuming the Legislature abides by the provisions of the *Compact* and either increases fees or provides a like-amount of General fund, fully meets UC's financial needs, as defined by the UC. The Legislature has traditionally agreed with this budgeting technique, believing that UC is best able to determine the resource needs of its campuses.

The LAO takes a different approach. Instead of "buying into" UC's definition of its resource needs, the LAO believes that the Legislature should define the amount of resources UC needs to operate, as well as the percentage of those resources that should be derived from student fees. Under the LAO's approach, the Legislature would appropriate an amount that, when coupled with the anticipated fee revenues, would be sufficient to cover inflationary adjustments, and thus expect that UC operate within those resources.

To meet this end, the LAO is recommending that the committee reject the Governor's proposed fee increase and instead adopt a more modest increase of 2.4 percent. This 2.4 percent increase is linked to the rate of inflation experienced by the UC and would ensure that students continue paying the same "share" of their educational costs in 2007-08 as they are currently paying. Further, the LAO is recommending that the Legislature **NOT** provide a "backfill" for the remaining amount of the Governor's proposed fee increase, believing instead that UC should be able to operate with the approximate $36 million in revenue that would be generated by a 2.4 percent fee increase.

Staff recommends that the committee hold this issue open pending the Governor's May Revision and a better assessment of the condition of the state General Fund.

V. Student Enrollment Growth.

A. Status of Current Year Enrollment Levels.

Pursuant to language adopted as part of the Annual Budget Act, UC is required to meet specified enrollment targets; this language has been adopted by the Legislature in recent years to ensure that the dollars appropriated for enrollment growth are indeed used to enroll additional students. If funds are not used for this purpose and the UC fails to meet the specified targets, the Budget Bill requires that the unused funds be reverted to the General Fund.

In the current year, UC's enrollment target is 193,455 FTES. This FTES target represents the number of students that UC received enrollment growth funding for in the current year. At present, UC estimates that, systemwide, it will be "over-enrolled" by approximately 3,039 FTES. While these "over-enrolled" students pay fees, and thus provide the university with fee revenue, UC receives no state enrollment funding for these students.

UC will likely comment that they tend to over-enroll students in order to accept all eligible students; however staff would note that, campuses do have options to limit enrollments, while still "accepting all eligible students". One such option is to impose, and adhere to, application deadlines.

B. Enrollment Growth Projections for 2007-08.

Pursuant to the *Compact*, the Governor's Budget proposes to fund enrollment growth equivalent to 2.5 percent. At UC, this approximate 2.5 percent increase equates to 5,000 FTES and an augmentation of $54.4 million. Of this amount, $570,000 and 38 FTES are attributable to increased medical school enrollments (under the PRIME program) at four UC Medical Schools, including Irvine, San Francisco, Davis, and San Diego (*Note*: This program will be discussed in more detail below.) Additionally, 675 FTES are attributable to the third year of new students attending UC Merced.

As part of its *Analysis of the 2007-08 Budget Bill*, the LAO conducted a review of enrollment growth projections and trends and determined that providing funding for enrollment growth of 2.5 percent was excessive. Instead, the LAO is recommending that the state fund enrollment growth of 2.0 percent, a level which the LAO believes will easily accommodate population increases in the college-going age range as well as increases in historic college participation rates. Further supporting the LAO's assertion is the Department of Finance Demographics Unit, which predicts that UC enrollments will grow by approximately 2 percent in 2007-08.

UC contends that 2.5 percent enrollment growth is: (1) consistent with the growth targets outlined as part of the Administration's "*Compact*"; (2) the minimum amount needed to continue admitting all eligible students (both first-time freshman and transfer students); and (3) necessary to get the system "back on track" after several years of managing enrollments downward.

Staff recommends that funding for enrollment growth at the proposed 2.5 percent level be placed on the "checklist" pending the Governor's May Revision.

C. PRIME (Programs in Medical Education).

The Governor's Budget provides $570,000 to grow medical school enrollments by 38 FTES. This medical school enrollment expansion is in its third year, and marks the first time medical school enrollments have increased since the mid-1970's. Until 2005-06, the incoming medical school class was limited to 622 FTES spread across UC's five Schools of Medicine.

While the bulk of the cost associated with these additional 38 FTES is absorbed within UC's enrollment growth allocation, the additional $570,000 covers the cost difference between what the state pays for "regular" student enrollments and the cost to UC to educate a medical student. Medical schools tend to have a higher marginal cost rate because of the smaller student-to-faculty ratio (3.5-to-1). In the case of PRIME, the cost amounts to an additional $15,000 above the per student rate already provided by the state.

Background. The PRIME program began at UC Irvine with a grant from the California Endowment and for 2007-08 is proposed to expand to a total of four UC Medical Schools (including Irvine, San Francisco, Davis, and San Diego). Specifically, PRIME seeks to train physicians to serve in underrepresented communities, whether geographic or demographic.

Under UC's proposal, students participating in the PRIME program at Irvine will continue to serve the underrepresented Latino community; UC San Francisco Medical students will team with Master's Degree students in Public Health at UC Berkeley to work with underserved communities in an urban setting. Students at UCSF's Fresno center will focus their efforts on working with migrant and seasonal workers in California's central valley. UC Davis Medical students will work with medically underserved populations in the rural regions of the state, while UC San Diego students will focus on immigrant and underserved populations (including Native American populations) in San Diego county.

Staff recommends that the committee hold funding for the PRIME program open pending the May Revision and resolution of the above-noted enrollment growth issues.

VI. UC Merced. The Governor's Budget continues providing $24 million for start-up costs associated with the Merced campus. Of this amount, $10 million is for the core operations of the university and $14 million is specifically for the unique costs associated with opening a new campus. These costs are slated to decrease over time, as enrollments grow and the funding derived from enrollment growth increases. Initially, the Merced campus intended to open with 1,000 FTES, including 600 freshman, 300 transfer students, and 100 graduate students. However, actual enrollments fell short of the campus' goals and UC Merced opened with 865 FTES students in the Fall of 2005. Since then, the campus has re-benched its enrollment goals, planning to grow by 800 FTES annually. Even those enrollment goals have been difficult to achieve. Recent enrollment data suggests that the campus will likely average increases of 675 FTES annually, reaching 4,000 FTES by the 2010-11 academic year.

UC originally indicated that enrollments at the Merced campus would need to reach a threshold of approximately 5,000 FTES, at which point the $14 million in start-up funds will begin to phase out; given the current enrollment trends, it will be closer to 2012-13 before the campus reaches 5,000 FTES. However, the *Compact*, as negotiated between UC and the Governor, appears to begin phasing out the $14 million in start-up funding beginning in 2010-11, regardless of the enrollment levels achieved by the campus. Based on UC's estimates, the enrollments at that point in time will likely be closer to 4,000 FTES.

In addition to the enrollment challenges noted above, the campus continues to face expansion obstacles raised by the US Army Corps of Engineers. Specifically, the Corps has long-standing issues pertaining to the environmental impact of the campus on surrounding vernal pools which serve as habitat to the endangered "fairy shrimp". These matters have yet to be resolved.

<u>Staff recommends</u> that the committee hold this issue open pending the May Revision.

VII. State-Funded Research. The Governor proposes to appropriate $253.5 million (General Fund) to UC for state supported research. This represents a net increase of $14 million over current year. The increase is derived from the following proposed adjustments: (1) a $15 million augmentation for the California Institutes for Science and Innovation; (2) a $5 million appropriation for a new "Petascale" supercomputing facility; and (3) a $6 million reduction attributable to the Governor's proposed dismantling of the units conducting research and education related to labor and employment.

A. <u>California Institutes for Science and Innovation</u>. Originally created by the state in the 2000-01 Budget Act, the UC houses four Institutes for Science and Innovation which engage in multi-disciplinary research focused on: (1) information technology; (2) telecommunications; (3) nanotechnology; and (4) biology. State funding was provided for both capital facilities ($100 million) and continues to be provided for ongoing support ($4.8 million annually).

   As part of its Regents Budget, the UC requested, and the Governor proposes a $15 million increase in ongoing support for these Institutes. According to UC, funds will be used to enhance the core research functions of the Institutes and ensure that each of the four Institutes has a minimum level of support with which to operate and attract funding from private sources.

The LAO recommends that the Legislature reject the proposed $15 million augmentation, citing a lack of adequate information on use of the additional funds. The LAO further notes that, if the expansion of the Institutes is a priority to the UC, it could chose to redirect funds from other state-funded research activities.

Staff recommends holding the issue open pending the May Revision and the resolution of other General Fund-related decisions by the Committee.

B. Petascale Supercomputing Facility. The Governor's Budget includes $5 million to help the UC be "more competitive" in its bid for the development and management of the next generation supercomputing facility (known as the Petascale supercomputer, named for the speed at which it can process information). While the National Science Foundation (the entity to whom the bid is to be submitted) does not require a state "match", the Governor and the UC believe that the inclusion of such a match would make California's proposal stand above its competitors.

The National Science Foundation launched a national bidding process to choose the future "home" for this new supercomputer. Whichever institution wins the bid to house the supercomputer is guaranteed ten percent of the Petascale computer's resources for its own use. The UC believes that the new supercomputer will help advance research in areas of interest to the state, including the biological and medical sciences; earthquake analysis; climate change, natural resources and energy planning; as well as engineering research.

UC, in conjunction with its managed National Laboratories, formed a consortium composed of California institutions as well as Georgia Tech and IBM, to compete for the $200 million award. If California wins the grant, the Petascale computer would be housed at the Lawrence Livermore National Laboratory.

The LAO has raised a series of concerns with the proposal, including the lack of clarity surrounding any future state funding commitments. According to the LAO, the Department of Finance indicates its intent to provide a total of $50 million over the next 10 years, provided UC procures the grant. However, LAO notes that the language in the Budget Bill does not specifically require that $5 million revert to the General Fund in the event that the UC is unsuccessful in its quest.

Staff recommends holding the issue open pending the May Revision and the resolution of other General Fund-related decisions by the Committee.

C. Labor Research Reduction. For the fifth year in a row, the Governor's Budget deletes all funding ($6 million) for the labor-related research and related education programs at the UC. As part of the current-year budget negotiations, the Legislature augmented the UC's budget to provide funding for these activities, funding which was sustained in the current year Budget Act. It remains unclear why the restoration of these funds was viewed as "one time" by the Administration and thus removed from the 2007-08 budget proposal.

Staff recommends that the Legislature place $6 million for labor research (with accompanying provisional language) on the "checklist" pending the May Revision.

XI. UC Retirement Program (UCRP). The UC Budget Proposal requested a $60 million augmentation to cover UC's employer costs of reinstating employer/employee contributions to the UCRP. This proposal was denied by the Administration and thus no funding was included in the Governor's January proposal.

Under the provisions of the *Compact*, the Governor agreed to provide funding for "other basic budget costs, such as annuitant health benefits, employer retirement contributions, and changes in debt service, in addition to the base budget support provided each year." What remains unclear is at what actuarial point the Governor committed to provide UC with funds to reinstate retirement contributions. Given that UCRP is projected to remain funded at 100 percent in the Budget Year, the Administration may argue that it has no obligation to fund UC's $60 million request.

Background. The UCRP, which is governed by the UC Board of Regents and administered by the UC Office of the President, provides pension, survivor, and death benefits to eligible retired UC employees and beneficiaries. The core benefit offered by UCRP is a defined benefit pension similar to the benefits offered through CalPERS, the California State Teachers' Retirement System, and local retirement systems.

Peak Value of the Fund. Since about 1987, the actuarial value of UCRP's assets has exceeded the value of the system's actuarially accrued liabilities (that is, UCRP's funded level has been above 100 percent). UCRP's funded level reached a peak of 16 percent in the 1980's primarily due to strong investment returns. According to the LAO, no other major public pension system in the U.S. is known to have such a long record of having a funded level above 100 percent.

Retirement Contribution "Holiday". In the early 1990's, given the strong condition of the fund, coupled with the effects of a deteriorating state economy, the Legislature and the Governor took action to remove $55.6 million in funding that the state had been providing to UC to cover the state's share of UC's employer-covered pension costs. The UC Regents followed suit shortly thereafter by suspending all contributions to the UCRP for both the employees and the university (as the employer). Since November 1, 1990, no contributions have been made into the UCRP.

In the intervening 15 years, during which both UC employees and the UC system have had a retirement contribution "holiday", the UC Regents adopted a policy requiring employees to redirect approximately two percent of their salary into a pretax defined contribution plan. This account belongs to the employee and supplements their retirement savings, including their UCRP pension benefits. Employees did not have the choice to "opt out" of the defined contribution plan.

Decline in Fund Value. In recent years, the funded level of UCRP has declined due to the lack of annual contributions, despite a healthy average annual investment return over the preceding ten years. In 2000, UCRP's funded level was 154 percent, but by 2006, this level had declined to 104 percent, the weakest return for UCRP in the past two decades. This level is still extremely healthy compared to public retirement systems nationwide. Actuarial projections have indicated that UCRP's funded ratio will drop to 95 percent within approximately three years unless corrective action (i.e., resuming contributions into the fund) is taken.

Current Status. The Regents' have adopted a multi-year plan which would phase-in both employee and employer contributions in order to keep the UCRP at or near the 100 percent funded level. Under the Regents' plan, in the first year, contributions for both the employee and employer would be two percent. Under this scenario, for the first year, UC proposes eliminating current employee contributions to the pretax defined contribution plan (as discussed above) and instead redirect those payments to the UCRP – resulting in no net change to the employee paychecks. However, staff notes that the ability of UC to initiate this plan is contingent upon its ability to make employer contributions, which appears to be dependent on the receipt of additional funds from the state.

Future Contributions. The status of future contribution levels also remains unsettled. Eventually, UC intends to ramp up contributions to the pension plan from the 0 percent of payroll today to about 16 percent of payroll in order to keep the system 100 percent funded on an actuarial basis. Total out-year costs to the state will likely exceed $300 million, annually, to keep UCRP funded between the 95-100 percent funded level.

Staff notes that the committee may wish to explore the following issues:

- Given that UCRP is currently funded at slightly over 100 percent, at what point are contributions into the fund absolutely necessary to maintain the fund at a minimum level of 95 percent of its accrued liabilities? (Per the UC Regents policy.)
- CalPERS is currently funded at approximately 87 percent. What is the appropriate level of funding for public pension systems?
- UC intends to "phase-in" employer and employee contributions after a 15-year hiatus. Is a phased-in approach more appealing or practical than suddenly implementing a 16 percent contribution, but at a later date?
- What is the state's historic commitment to funding UC's Retirement Program? Do we traditionally fund the employer-side contributions when the system is at or above 100 percent funded?
- Absent additional funding from the State, how will UC fund its employer share of the retirement contributions?
- Employee unions have claimed that UC already has sufficient funds to either offset contributions or defer the reinstatement of contributions. UC may wish to comment on how funds it had previously spent on employer contributions were redirected during the 15 years that both employees and UC (as the employer) experienced a retirement contribution "holiday".
- Does the Board of Regents, as a "public board" provide sufficient "oversight" of the investment portfolio? How does this oversight compare to the public retirement

boards charged with fiduciary responsibility over the assets of other public pension systems such as CalPERS or STRS?

XII. Proposed Consent

Staff recommends that the following item be adopted with the accompanying changes:

6440-001-0007 Support, University of California. Breast Cancer Research $12,776,000

6440-001-0046 Support, University of California. Institute of Transportation Studies $980,000

6440-001-0234 Support, University of California. Cigarette and Tobacco Products Surtax Fund, Research Account $14,553,000

6440-001-0308 Support, University of California. Earthquake Risk Reduction Fund $1,500,000

6440-001-0321 Support, University of California. Oil Spill Response Trust Fund $1,300,000

6440-001-0890 Support, University of California. Federal GEAR UP Program $3,500,000

6440-001-0945 Support, University of California. California Breast Cancer Research $778,000

6440-002-0001 Support, University of California. Ongoing deferral of expenditures from June 30th to July 1st ($55,000,000)

6440-003-0001 Support, University of California. Debt Service $174,108,000

6440-011-0042 Transfer by Controller from State Hwy. Acct., Earthquake Risk Reduction Fund of 1996 ($1,000,000)

6440-401 Budget Language, University of California, related to unexpended GO bond funds remaining after completion of a capital outlay project.

6440-490 Reappropriation, University of California.